ECONOMY

The fiscal deficit is understated, by 0.3% of GDP, by keeping some debt serviced from the consolidated fund off the books

Does the Math Add Up?

TEN ISSUES FACING THE ECONOMY

8/10

Crude Concern

India's dependence on imported crude and gas has risen...

Import Dependency (In %)

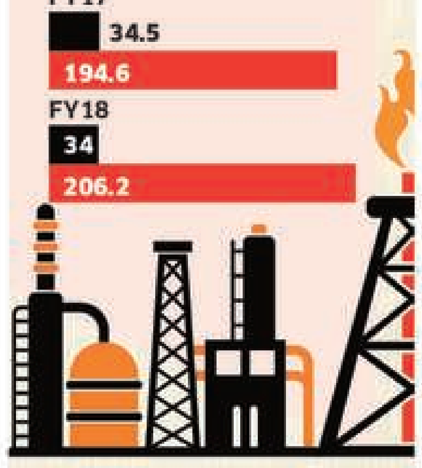
FY16	40.7	80.6
FY17	44.5	81.7
FY18	45.3	82.9
FY19 (Apr-Oct)	47	83.3

...as domestic production has declined while demand has risen

In Million Metric Tonnes

- Domestic Crude Production
- Consumption of Petro Products

	Domestic Crude Production	Consumption of Petro Products
FY16	35.5	184.7
FY17	34.5	194.6
FY18	34	206.2



Spike in prices of global crude has almost always disrupted India's macros

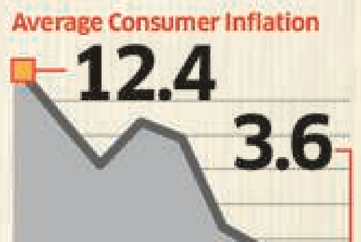
Price Of Indian Crude Basket (In $/Bbl)

FY10	69.76
FY11	85.09
FY12	111.89
FY13	107.97
FY14	105.52
FY15	84.16
FY16	46.17
FY17	47.56
FY18	56.43

Current Account Deficit (As % Of GDP)

FY10	2.8
FY11	2.8
FY12	4.2
FY13	4.8
FY14	1.7
FY15	1.3
FY16	1.1
FY17	0.6
FY18	1.9

Average Consumer Inflation



Average Exchange Rate (₹/$)

FY15	61.1
FY16	65.5
FY17	67.1
FY18	64.5

Fiscal Consolidation Paused, But Goal Retained

The government has almost met the fiscal deficit target for FY19, but election-year compulsions mean there is no improvement seen in FY20, which makes the much-delayed goal of achieving a 3% of GDP fiscal deficit target difficult

FY19—A MINOR SLIP DESPITE ELECTION COMPULSIONS

1. Fiscal deficit slightly higher than budgeted

Fiscal deficit as % of GDP

FY18	3.5
FY19 (BE)	3.3
FY19 (RE)	3.4

2. Allocation for income to farmers raises spending...

Total govt spending, in ₹ lakh cr

FY18	21.42
FY19 (BE)	24.42
FY19 (RE)	24.57

3. ...that is not covered even as direct taxes make up for GST shortfall

Total revenue receipts, in ₹ lakh cr

FY18	14.35
FY19 (BE)	17.26
FY19 (RE)	17.3

4. ...and disinvestment target is achieved

₹ crore

FY18	100,045
FY19 (BE)	80,000
FY19 (RE)	80,000

5. ...but budgetary capital spending is maintained to spur investments

Capital spending, in ₹ lakh crore

FY18	2.63
FY19 (BE)	3
FY19 (RE)	3.17

FY20—CONSOLIDATION ROADMAP BECOMES DIFFICULT

1. No improvement in fiscal deficit in FY20...

Fiscal deficit as % of GDP

FY19 (RE)	3.4
FY20 (BE)	3.4

2. ...as ₹75,000 cr extra for income support to farmers raise revenue expenditure sharply...

In ₹ lakh crore

FY18	18.79
FY19 (BE)	21.42
FY19(RE)	21.41
FY20 (BE)	24.48

3. ...that taxes cannot cover despite high increase

% Increase in net tax revenue

FY19(RE)	19.5
FY20 (BE)	14.9

4. ...leaving a high borrowing need for FY20

Gross borrowing and other liabilities, ₹ lakh crore

FY18	5.91
FY19 (BE)	6.24
FY19 (RE)	6.34
FY20 (BE)	7.04

5. ...which makes a sharp correction in fiscal deficit difficult in FY21

FY20 (BE)	3.4
FY21 (Roadmap)	3
FY22 (Roadmap)	3

KEY TAKEAWAYS

Higher Dividend from RBI

The government expects ₹28,000 crore interim dividend from RBI in FY19 in addition to ₹40,000 crore already received. The proceeds from RBI, PSBs and financial institutions is now seen at ₹74,140 crore in FY19 against ₹54,817 crore budgeted.

Help from Small Savings

A sharp rise in small savings has reduced the market borrowing needs of the government to meet the fiscal deficit. ₹1.25 lakh crore is expected in FY19 against ₹75,000 cr budgeted. ₹1.3 lakh crore seen in FY20 via this route.

Tax-to-GDP Ratio

The tax to GDP ratio is budgeted to improve to 12.1% in FY20 from 11.9% in FY19 while tax collections are budgeted to rise 13.2% in line with the 11.5% increase in nominal GDP growth in FY20.

IN FOCUS

More for Taxpayers, Less for Farmers

The election orientation of the interim budget doesn't justify its unethical nature or scant regard for equity

TK.Arun@timesgroup.com

When an interim budget of an outgoing government proposes major changes to tax and expenditure, it expropriates the next Lok Sabha of its right to decide revenue and spending priorities for its tenure. It is an undemocratic act and that is what the present government has done.

The desirability of the tax change or expenditure proposed would not justify the move.

Take the case of an accident victim in need of a surgery. Suppose the hospital chief says the cost of the operation would be deducted from the salary of the surgeon on hand. The issue at stake is not the desirability of the operation but the propriety of who takes the decision at whose expense.

The budget gives extra money to those with taxable income less than ₹5 lakh, as an additional rebate to be availed of by filing returns.

Those with an income of around ₹40,000 a month would gain, and their extra expenditure would add to demand in the economy. However, there is a lack of equity in handing out ₹12,500 to every urban taxpayer, and one-tenth of that amount to every member of a poor farmer household of five.

The fiscal deficit is understated, by 0.3% of GDP, by keeping some debt serviced from the consolidated fund off the books. The Budget speech said that 10 lakh families were spared an expense of ₹3,000 crore under the health insurance scheme. That means the payout in Ayushman Bharat averages ₹3 lakh per patient. Either the scheme is underfunded or the fiscal deficit is understated yet again.

Considering the mounting fiscal deficit of the states, doling out farm loan waivers and taking on the debt of bankrupt electricity boards, the combined Centre-state deficit would be pushing 8% of GDP.

This would create inflation when private investment picks up next year, once the banks start lending and spare capacity in industry gets exhausted.

There is a lack of equity in handing out ₹12,500 to every urban taxpayer, and one-tenth of that to every member of a poor farmer household of five

The government has missed the fiscal deficit target, but not by much and, at a time of low investment by the private sector, this is just fine. For an election year, spending has been restrained. The current year's total spending turns out to be 13% of GDP, a tad higher than the 12.5% achieved last year. Add the states' spending, and still total government expenditure for India would be about 27% of GDP. It is double that level in France and around 40% of GDP for the average advanced economy. This underlines India's feeble fiscal capacity.

The task is to mine data from GST filings to collect more direct tax, which has been buoyant but still yields a fraction of its potential.

The election orientation of the Budget is evident, but that does not quite justify its unethical nature or its scant regard for equity in additional giveaways and spending.

Bond Yields Jump on Deficit Concern

Net borrowing seen at ₹4.48 lakh cr in FY20, almost unchanged from revised FY19 estimate

Kirtika. Suneja@timesgroup.com

India's bond market reacted sharply to the finance minister's announcement of higher-than-expected fiscal deficit for the coming year and the corresponding borrowing burden on the market saw 10-year bond yields jump 11 basis points to close at 7.38%.

Net borrowing, after adjusting for repayments, is seen at ₹4.48 lakh crore in FY20 almost unchanged from ₹4.47 lakh crore as per the revised estimate for FY19.

Gross borrowings were expected to be lower than ₹7 lakh crore, but have been pegged at ₹7.1 lakh crore, an increase of 24% from ₹5.71 lakh crore in FY19.

While the slippage in fiscal deficit in FY19 from 3.3% to 3.4% was expected, the fiscal deficit figure of 3.4% for FY20 came as a surprise.

"The borrowing number is way beyond expectation because most people were expecting the fiscal deficit figure of 3.3% for FY20," said an economist, requesting anonymity.

The high borrowing numbers pushed up the 10-year bond yields to 7.39% on Friday against its previous close of 7.28%.

"The financing of pegged budget deficit appears to be through larger-than-expected market borrowing (net) for both FY19 and FY20. The bond markets have reacted to this news adversely. The bond yields have moved up by 11 bps from today's lows," said Shubhada Rao, Chief Economist, Yes Bank.

In September 2018, the government had cut its gross borrowing for the year by ₹70,000 crore and stuck to the net borrowings planned in the budget to meet the fiscal deficit target for the year and cool bond yields.

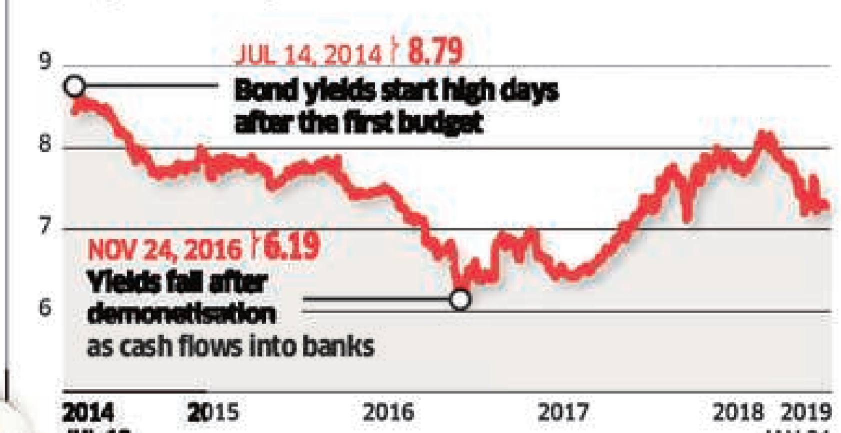
There is an increase in repayments for FY20 at ₹2.36 lakh crore compared with ₹1.48 lakh crore in the current fiscal.

"A 12% rise in net borrowing by the government is likely to add pressure on bond yields but improved global liquidity scenario due to the US Fed's dovishness will make bond yields move in a narrow band," said India Ratings' chief economist Devendra Kumar Pant. "However, if there is fiscal slippage and growth slips or there is an upward trajectory of inflation, it may lead bond yields to spike," Pant added.

Budgeting Modi's 5 Years

How economic indicators changed over this govt's 1st to 6th budget

Ten-year bond yield



₹90kcr Divestment Target Set for FY20

Dheeraj.Tiwari@timesgroup.com

The government set the disinvestment target for fiscal 2020 at ₹90,000 crore, higher than the ₹80,000 crore budgeted for the ongoing year that it said would be exceeded. The government has raised ₹35,532 crore from asset sale so far in fiscal 2019.

Interim finance minister Piyush Goyal said that the government had pursued a public enterprises asset management agenda to make these entities accountable to the people. As many as 57 central public-sector enterprises (CPSEs) are now listed with a total market capitalisation of more than ₹13 lakh crore, he noted.

Three IPOs — of RITES, IRCON International and Garden Reach Shipbuilders — hit the market during this financial year. The government also raised ₹17,000 crore from the third offer of the CPSE exchange-traded fund and ₹8,325 crore from the Bharat 22 ETF. Besides, state-run Bharat Heavy Electricals, Cochin Shipyard, Nalco, NLC India and KIOCL announced share buybacks during the year.

INTERIM BUDGET 1962-63

Morarji Desai

After elections, Morarji Desai presented an interim budget for 1962-63 in March 1962 as the new government couldn't finalise the regular budget for want of time. He announced that the government had accepted almost all the recommendations of the Third Finance Commission.

When Desai informed Parliament that net expenditure on defence services in the coming year (1962-63) will be ₹38.74 crore more than in the current year, he couldn't have imagined that India would be going to war with China later that year. In his speech, Desai expressed concern about the 1961-62 fiscal ending with a bigger-than-anticipated deficit despite buoyant revenues, and vowed to enlarge budgetary resources next year.

Sops for Taxpayers, Farmers to Give Consumption a ₹93,000-cr Boost

PAWAN MUNJAL
Chairman,
Hero MotoCorp Ltd

Interim finance minister Piyush Goyal – who was quite impressive on Friday with his articulation of the government's vision – has managed to contain fiscal deficit at 3.4% of GDP for the current year, and has maintained the same at 3.4% for fiscal '20.

The budget rightly focuses on consumption and rural theme. With farm distress clearly visible, the allocation for the agrarian sector is likely to bring the much-needed respite.

The announcement of the direct benefit scheme will benefit 120 million small and marginal farmers and the income tax sops will impact around 30 million low-income taxpayers. Together, just these two schemes will put an estimated ₹93,000 crore in the system, thereby boosting consumption and helping the rural economy to some extent.

The other laudable initiative is the monthly pension scheme for the unorganised sector. This is certainly a welcome step, but we need to look for a holistic social benefit and medical care scheme for every citizen of the country, and not just one particular section.

Infrastructure investment should have been a part of this budget. Other than the allocation for the railways, we did not hear much on infrastructure growth. However, considering this was an interim budget, we expect the new government to address these issues.

As the minister said, India at present seems to be the brightest spot on the global map. But is the growth rate of 7.5% in 2019 adequate for a nation with such a large population and capabilities? We are the world's fastest growing major economy and if we do aspire to be a developed one, we will have to look at a double-digit GDP growth.

If we aspire to be a developed economy, we will have to look at double-digit GDP growth

ANIRBAN BORA

Going forward, the government should come up with more structural steps and generate new jobs and employment opportunities to bring more people into the income group.

India's domestic demand has started to strengthen as the country has witnessed benefits of structural reforms like GST harmonisation and bank recapitalisation.

IN A NUTSHELL

- **Sops for about 120 million** small farmers to boost rural economy
- **Need to look for a holistic** social benefit and medical care scheme for every citizen
- **Government should come up** with more structural steps and generate new jobs opportunities

The FM underlined 10 most important 'Vision 2030' dimensions that will guide this government. The framework is laudable, but the key will lie in proper strategising, putting the right kind of investments and other resources, and time-bound execution of the programmes.

This is crucial, as the country has embarked on a massive digital transformation, capitalising on cutting-edge technologies to emerge as a key driver of global progress in the years to come, thus ready to take the lead in Globalisation 4.0 – the theme at the recently concluded World Economic Forum at Davos.

All in all, it was a budget to bring the market back to the growth path from the sluggishness of the recent few months, but we need to aim much higher as a nation with such immense capabilities and potential.